
SUBSTITUTE SENATE BILL 6168

State of Washington

60th Legislature

2007 Regular Session

By Senate Committee on Ways & Means (originally sponsored by Senators Berkey, Zarelli, Stevens and Shin)

READ FIRST TIME 04/13/07.

1 AN ACT Relating to excise tax relief for aerospace product
2 development businesses; amending RCW 82.08.981, 82.12.981, 82.04.4487,
3 82.32.545, and 82.04.4463; reenacting and amending RCW 82.04.440;
4 adding a new section to chapter 82.04 RCW; providing an effective date;
5 and providing an expiration date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 **Sec. 1.** RCW 82.08.981 and 2006 c 177 s 1 are each amended to read
8 as follows:

9 (1) The tax levied by RCW 82.08.020 does not apply to sales of
10 computer hardware, computer peripherals, or software, not otherwise
11 eligible for exemption under RCW 82.08.02565 or 82.08.975, used
12 primarily in (~~the development, design, and engineering of commercial~~
13 ~~airplanes or components of such airplanes~~) aerospace product
14 development, or to sales of or charges made for labor and services
15 rendered in respect to installing the computer hardware, computer
16 peripherals, or software. The exemption is available only when the
17 buyer provides the seller with an exemption certificate in a form and
18 manner prescribed by the department. The seller shall retain a copy of
19 the certificate for the seller's files.

1 (2) As used in this section:

2 (a) "Aerospace product development" means the development, design,
3 or engineering of:

4 (i) Commercial airplanes and components of such airplanes;

5 (ii) Tooling that is used in the manufacturing or processing for
6 hire of commercial airplanes or components of such airplanes.

7 (b) "Commercial airplane" and "component" have the meanings in RCW
8 82.32.550.

9 ~~((b))~~ (c) "Peripherals" includes keyboards, monitors, mouse
10 devices, and other accessories that operate outside of the computer,
11 excluding cables, conduit, wiring, and other similar property.

12 (3) This section expires July 1, 2024.

13 **Sec. 2.** RCW 82.12.981 and 2006 c 177 s 2 are each amended to read
14 as follows:

15 (1) The provisions of this chapter do not apply in respect to the
16 use of computer hardware, computer peripherals, or software, not
17 otherwise eligible for exemption under RCW 82.12.02565 or 82.12.975,
18 used primarily in ~~((the development, design, and engineering of~~
19 ~~commercial airplanes or components of such airplanes))~~ aerospace
20 product development, or to the use of labor and services rendered in
21 respect to installing the computer hardware, computer peripherals, or
22 software.

23 ~~((As used in this section:~~

24 ~~(a) "Commercial airplane" and "component" have the meanings in RCW~~
25 ~~82.32.550.~~

26 ~~(b) "Peripherals" includes keyboards, monitors, mouse devices, and~~
27 ~~other accessories that operate outside of the computer, excluding~~
28 ~~cables, conduit, wiring, and other similar property))~~ The definitions
29 in section 1 of this act apply to this section.

30 (3) This section expires July 1, 2024.

31 **Sec. 3.** RCW 82.04.4487 and 2006 c 177 s 3 are each amended to read
32 as follows:

33 (1) In computing the tax imposed under this chapter, a credit is
34 allowed for each person for qualified ~~((preproduction))~~ aerospace
35 product development expenditures occurring after July 1, 2006.

1 (2) The credit is equal to the amount of qualified
2 (~~preproduction~~) aerospace product development expenditures of a
3 person, multiplied by the rate of 1.5 percent.

4 (3) The credit shall be taken against taxes due for the same
5 calendar year in which the qualified (~~preproduction~~) aerospace
6 product development expenditures are incurred. Credits may not be
7 carried over. The credit for each calendar year may not exceed the
8 amount of tax otherwise due under this chapter for the calendar year.
9 Refunds may not be granted in the place of a credit.

10 (4) Any person entitled to the credit in this section as a result
11 of qualified (~~preproduction~~) aerospace product development conducted
12 under contract may assign all or any portion of the credit to the
13 person contracting for the performance of the qualified
14 (~~preproduction~~) aerospace product development.

15 (5) The definitions in this subsection apply throughout this
16 section.

17 (a) (~~"Aeronautics" means the study of flight and the science of~~
18 ~~building and operating commercial aircraft.~~

19 (~~b) "Preproduction" (i) "Aerospace product development" means~~
20 research, design, and engineering activities performed in relation to
21 the development of a product, product line, model, or model derivative,
22 including prototype development, testing, and certification. (~~The~~
23 ~~term~~) The development of a product, product line, model, or model
24 derivative, shall be for:

25 (A) Commercial airplanes and components of such airplanes; or

26 (B) Tooling that is used in the manufacturing or processing for
27 hire of commercial airplanes or components of such airplanes.

28 (ii) "Aerospace product development" includes the discovery of
29 technological information, the translating of technological information
30 into new or improved products, processes, techniques, formulas, or
31 inventions, and the adaptation of existing products and models into new
32 products or new models, or derivatives of products or models. The term
33 does not include manufacturing activities or other production-oriented
34 activities. The term does not include surveys and studies, social
35 science and humanities research, market research or testing, quality
36 control, sale promotion and service, computer software developed for
37 internal use, and research in areas such as improved style, taste, and
38 seasonal design.

1 ~~((e))~~ (b) "Qualified ~~((preproduction))~~ aerospace product
2 development" means ~~((preproduction))~~ aerospace product development
3 performed within this state ~~((in the field of aeronautics))~~.

4 ~~((d))~~ (c) "Qualified ~~((preproduction))~~ aerospace product
5 development expenditures" means operating expenses, including wages,
6 compensation of a proprietor or a partner in a partnership as
7 determined by the department, benefits, supplies, and computer
8 expenses, directly incurred in qualified ~~((preproduction))~~ aerospace
9 product development by a person claiming the credit provided in this
10 section. The term does not include amounts paid to a person other than
11 a public educational or research institution to conduct qualified
12 ~~((preproduction))~~ aerospace product development. The term does not
13 include capital costs and overhead, such as expenses for land,
14 structures, or depreciable property.

15 (6) Credit may not be claimed for expenditures for which a credit
16 is claimed under RCW 82.04.4452 or 82.04.4461.

17 (7) This section expires July 1, 2024.

18 NEW SECTION. **Sec. 4.** A new section is added to chapter 82.04 RCW
19 to read as follows:

20 (1)(a) Upon every person engaging within this state in the business
21 of manufacturing tooling that is used in the manufacturing of
22 commercial airplanes or components of such airplanes; as to such
23 persons the amount of the tax with respect to the business shall, in
24 the case of manufacturers, be equal to the value of the product
25 manufactured, or in the case of processors for hire, be equal to the
26 gross income of the business, multiplied by the rate of 0.2904 percent.

27 (b) Upon every person engaging within this state in the business of
28 making sales, at retail or wholesale, of tooling manufactured by that
29 person that is used in the manufacturing of commercial airplanes or
30 components of such airplanes; as to such persons the amount of the tax
31 with respect to the business shall be equal to the gross income of the
32 business, multiplied by the rate of 0.2904 percent.

33 (2) For purposes of this section, "manufacturing" means the same as
34 "to manufacture" in RCW 82.04.120 and includes the activities of both
35 manufacturers and processors for hire.

36 (3) This section expires July 1, 2024.

1 **Sec. 5.** RCW 82.32.545 and 2003 2nd sp.s. c 1 s 16 are each amended
2 to read as follows:

3 (1) The legislature finds that accountability and effectiveness are
4 important aspects of setting tax policy. In order to make policy
5 choices regarding the best use of limited state resources the
6 legislature needs information on how a tax incentive is used.

7 (2)(a) A person who reports taxes under RCW 82.04.260(~~((+13))~~) (11)
8 or section 4 of this act or who claims an exemption or credit under RCW
9 82.04.4461, 82.08.980, 82.12.980, 82.29A.137, 84.36.655, and 82.04.4463
10 shall make an annual report to the department detailing employment,
11 wages, and employer-provided health and retirement benefits per job at
12 the manufacturing site. The report shall not include names of
13 employees. The report shall also detail employment by the total number
14 of full-time, part-time, and temporary positions. The first report
15 filed under this subsection shall include employment, wage, and benefit
16 information for the twelve-month period immediately before first use of
17 a preferential tax rate under RCW 82.04.260(~~((+13))~~) (11) or section 4
18 of this act, or tax exemption or credit under RCW 82.04.4461,
19 82.08.980, 82.12.980, 82.29A.137, 84.36.655, and 82.04.4463. The
20 report is due by March 31st following any year in which a preferential
21 tax rate under RCW 82.04.260(~~((+13))~~) (11) or section 4 of this act is
22 used, or tax exemption or credit under RCW 82.04.4461, 82.08.980,
23 82.12.980, 82.29A.137, 84.36.655, and 82.04.4463 is taken. This
24 information is not subject to the confidentiality provisions of RCW
25 82.32.330 and may be disclosed to the public upon request.

26 (b) If a person fails to submit an annual report under (a) of this
27 subsection by the due date of the report, the department shall declare
28 the amount of taxes exempted or credited, or reduced in the case of the
29 preferential business and occupation tax rate, for that year to be
30 immediately due and payable. Excise taxes payable under this
31 subsection are subject to interest but not penalties, as provided under
32 this chapter. This information is not subject to the confidentiality
33 provisions of RCW 82.32.330 and may be disclosed to the public upon
34 request.

35 (3) By November 1, 2010, and by November 1, 2023, the fiscal
36 committees of the house of representatives and the senate, in
37 consultation with the department, shall report to the legislature on
38 the effectiveness of chapter 1, Laws of 2003 2nd sp. sess. and this act

1 in regard to keeping Washington competitive. The report shall measure
2 the effect of chapter 1, Laws of 2003 2nd sp. sess. and this act on job
3 retention, net jobs created for Washington residents, company growth,
4 diversification of the state's economy, cluster dynamics, and other
5 factors as the committees select. The reports shall include a
6 discussion of principles to apply in evaluating whether the legislature
7 should reenact any or all of the tax preferences in chapter 1, Laws of
8 2003 2nd sp. sess. and this act.

9 **Sec. 6.** RCW 82.04.440 and 2006 c 300 s 8 and 2006 c 84 s 6 are
10 each reenacted and amended to read as follows:

11 (1) Every person engaged in activities that are subject to tax
12 under two or more provisions of RCW 82.04.230 through 82.04.298,
13 inclusive, shall be taxable under each provision applicable to those
14 activities.

15 (2) Persons taxable under RCW 82.04.2909(2), 82.04.250, 82.04.270,
16 82.04.294(2), section 4(1)(b) of this act, or 82.04.260 (1)(c), (4),
17 (11), or (12) with respect to selling products in this state, including
18 those persons who are also taxable under RCW 82.04.261, shall be
19 allowed a credit against those taxes for any (a) manufacturing taxes
20 paid with respect to the manufacturing of products so sold in this
21 state, and/or (b) extracting taxes paid with respect to the extracting
22 of products so sold in this state or ingredients of products so sold in
23 this state. Extracting taxes taken as credit under subsection (3) of
24 this section may also be taken under this subsection, if otherwise
25 allowable under this subsection. The amount of the credit shall not
26 exceed the tax liability arising under this chapter with respect to the
27 sale of those products.

28 (3) Persons taxable as manufacturers under RCW 82.04.240 or
29 82.04.260 (1)(b) or (12), including those persons who are also taxable
30 under RCW 82.04.261, shall be allowed a credit against those taxes for
31 any extracting taxes paid with respect to extracting the ingredients of
32 the products so manufactured in this state. The amount of the credit
33 shall not exceed the tax liability arising under this chapter with
34 respect to the manufacturing of those products.

35 (4) Persons taxable under RCW 82.04.230, 82.04.240, 82.04.2909(1),
36 82.04.294(1), 82.04.2404, section 4(1)(a) of this act, or 82.04.260
37 (1), (2), (4), (11), or (12), including those persons who are also

1 taxable under RCW 82.04.261, with respect to extracting or
2 manufacturing products in this state shall be allowed a credit against
3 those taxes for any (i) gross receipts taxes paid to another state with
4 respect to the sales of the products so extracted or manufactured in
5 this state, (ii) manufacturing taxes paid with respect to the
6 manufacturing of products using ingredients so extracted in this state,
7 or (iii) manufacturing taxes paid with respect to manufacturing
8 activities completed in another state for products so manufactured in
9 this state. The amount of the credit shall not exceed the tax
10 liability arising under this chapter with respect to the extraction or
11 manufacturing of those products.

12 (5) For the purpose of this section:

13 (a) "Gross receipts tax" means a tax:

14 (i) Which is imposed on or measured by the gross volume of
15 business, in terms of gross receipts or in other terms, and in the
16 determination of which the deductions allowed would not constitute the
17 tax an income tax or value added tax; and

18 (ii) Which is also not, pursuant to law or custom, separately
19 stated from the sales price.

20 (b) "State" means (i) the state of Washington, (ii) a state of the
21 United States other than Washington, or any political subdivision of
22 such other state, (iii) the District of Columbia, and (iv) any foreign
23 country or political subdivision thereof.

24 (c) "Manufacturing tax" means a gross receipts tax imposed on the
25 act or privilege of engaging in business as a manufacturer, and
26 includes (i) the taxes imposed in RCW 82.04.240, 82.04.2404,
27 82.04.2909(1), section 4(1)(a) of this act, 82.04.260 (1), (2), (4),
28 (11), and (12), and 82.04.294(1); (ii) the tax imposed under RCW
29 82.04.261 on persons who are engaged in business as a manufacturer; and
30 (iii) similar gross receipts taxes paid to other states.

31 (d) "Extracting tax" means a gross receipts tax imposed on the act
32 or privilege of engaging in business as an extractor, and includes (i)
33 the tax imposed on extractors in RCW 82.04.230 and 82.04.260(12); (ii)
34 the tax imposed under RCW 82.04.261 on persons who are engaged in
35 business as an extractor; and (iii) similar gross receipts taxes paid
36 to other states.

37 (e) "Business", "manufacturer", "extractor", and other terms used

1 in this section have the meanings given in RCW 82.04.020 through
2 82.04.212, notwithstanding the use of those terms in the context of
3 describing taxes imposed by other states.

4 **Sec. 7.** RCW 82.04.4463 and 2006 c 177 s 10 are each amended to
5 read as follows:

6 (1) In computing the tax imposed under this chapter, a credit is
7 allowed for property taxes and leasehold excise taxes paid during the
8 calendar year.

9 (2) The credit is equal to:

10 (a)(i)(A) Property taxes paid on new buildings, and land upon which
11 this property is located, built after December 1, 2003, and used
12 exclusively in (~~manufacturing commercial airplanes or components of~~
13 ~~such airplanes~~) aerospace product development; and

14 (B) Leasehold excise taxes paid with respect to a building built
15 after January 1, 2006, the land upon which the building is located, or
16 both, if the building is used exclusively in (~~manufacturing commercial~~
17 ~~airplanes or components of such airplanes~~) aerospace product
18 development; or

19 (ii) Property taxes attributable to an increase in assessed value
20 due to the renovation or expansion, after December 1, 2003, of a
21 building used exclusively in (~~manufacturing commercial airplanes or~~
22 ~~components of such airplanes~~) aerospace product development; and

23 (b) An amount equal to property taxes paid on machinery and
24 equipment exempt under RCW 82.08.02565 or 82.12.02565 and acquired
25 after December 1, 2003, multiplied by a fraction. The numerator of the
26 fraction is the total taxable amount subject to the tax imposed under
27 RCW 82.04.260(11) and section 4 of this act. The denominator of the
28 fraction is the total taxable amount subject to the tax imposed under
29 all manufacturing classifications in chapter 82.04 RCW, required to be
30 reported on the person's returns for the calendar year before the
31 calendar year in which the credit under this section is earned. No
32 credit is available under this subsection (2)(b) if either the
33 numerator or the denominator of the fraction is zero. If the fraction
34 is greater than or equal to nine-tenths, then the fraction is rounded
35 to one. For purposes of this subsection, "returns" means the combined
36 excise tax returns for the calendar year.

1 (3) (~~For the purposes of this section,~~) The definitions in this
2 subsection apply to this section.

3 (a) "Aerospace product development" means the manufacturing of:
4 (i) Commercial airplanes or components of such airplanes; or
5 (ii) Tooling that is used in the manufacturing of commercial
6 airplanes or components of such airplanes.

7 (b) "Commercial passenger airplane" and "component" have the
8 meanings given in RCW 82.32.550.

9 (4) A person taking the credit under this section is subject to all
10 the requirements of chapter 82.32 RCW. (~~In addition, the person must~~
11 ~~report as required under RCW 82.32.545.~~) A credit earned during one
12 calendar year may be carried over to be credited against taxes incurred
13 in a subsequent calendar year, but may not be carried over a second
14 year. No refunds may be granted for credits under this section.

15 (5) In addition to all other requirements under this title, a
16 person taking the credit under this section must report as required
17 under RCW 82.32.545.

18 (6) This section expires July 1, 2024.

19 NEW SECTION. Sec. 8. This act takes effect October 1, 2007.

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